# Moving Toward Tax Reform in Indiana

An Honors Thesis (HONRS 499)

by

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# Purpose

The purpose of this paper is to provide a comprehensive exposition of the issues related to current efforts to reform the Indiana tax structure. This paper contains no new findings; rather it attempts to facilitate a cohesive understanding of existing research and present the multiple considerations which establish the context for tax reform. To understand this context, it is necessary to take into account the history of tax reform in Indiana, academic evaluations of the existing tax system, and the current political and policy environment of tax reform, namely the efforts of the Citizens Commission on Taxes and the intractability of property tax issues. It concludes by framing the issues of the 1999 session of the Indiana General Assembly.

# Preface

I first encountered the tax reform issue in January 1998 when, as an intern for the Senate Democratic Caucus, I witnessed the emotional debate in the Indiana Senate regarding Senate Bill 352. Some Democratic Senators were incensed that Republicans would remove the school general fund tax from the property tax levy without making provisions to replace that revenue. Nevertheless, SB 352 passed the Senate by a 42-8 vote.

I was intrigued. I had never studied tax policy before, but it seemed to be poor policy to eliminate a funding source for education without finding a way to replace that revenue. When 42 Senators voted for the bill, I took pause. Obviously there was more to the issue than I had gathered from my limited exposure. I began seeking insight into the tax reform issue from the senator with whom I worked most closely. Senator Lindel Hume told me that there would probably be progress toward significantly reducing property tax soon. He told me of his work with the Citizens Commission on Taxes, and he said that the decision by Governor O'Bannon to allow a "blue-ribbon" commission comprised of Indiana residents of diverse viewpoints to study and propose a plan for tax reform was a good idea.

I had the opportunity to satisfy my curiosity about tax reform while fulfilling a vital academic requirement. To graduate from the Ball State University Honors College, a project or thesis must be completed. This is my thesis--an exposition of the current tax reform debate in Indiana.

I am indebted to those whose livelihood is the study of taxation, especially Drs. Larry DeBoer and James Papke, for explaining the social and economic implications of taxation.

I am grateful for the assistance which I was provided, without hesitation, by both Republican and Democratic members of state government. Fiscal analysts Gretchen Gutman, Troy Liggett and Jeff Spalding and Governor's Fellows, Ryan Soultz and Willis Johnson, were generous with their time and their analysis. Senator Lindel Hume shared his insight as a veteran legislator. Kevin Carey made my job immeasurably easier by providing me with copious background information, always calling back when I needed help, and critiquing my rough draft.

I appreciate the guidance of Dr. John Cranor who helped me navigate the myriad issues and give this work focus. Thanks also to Dr. Cranor for attempting to make me a better writer.

I hope that I have succeeded, at least in part, in facilitating understanding of the Indiana tax system and the current efforts to reform it.

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# Moving Toward Tax Reform in Indiana

The State of Indiana is about to embark on a landmark journey to reform its tax system. The efforts of the General Assembly and the Governor in 1999 promise to make the most significant tax code revision in over a quarter century, and their efforts may determine the architecture of the Indiana tax system well into the next century.

The purpose of this paper is to provide a comprehensive exposition of the issues related to current efforts to reform the Indiana tax structure. This paper contains no new findings; rather it attempts to facilitate a cohesive understanding of existing research and present the multiple considerations which establish the context for tax reform. To understand this context, it is necessary to take into account the history of tax reform in Indiana, academic evaluations of the existing tax system, and the current political and policy environment of tax reform, namely the efforts of the Citizens Commission on Taxes and the intractability of property tax issues. It concludes by framing the issues of the 1999 session of the Indiana General Assembly.

## I. History of tax reform in Indiana

The last major restructuring of the Indiana tax system was the result of the "Bowen Plan" of 1973. Much has changed in the quarter-century since that reform but the main tax reform issue has not. Hoosiers still want their property tax burdens reduced.[1]

The 1973 tax reform legislation had six major components. First, it doubled the state sales tax from two (2) to four (4) percent. Second, it froze all local government property tax rates, except those for schools, at existing rates. Third, it established a property tax relief fund to pay 20 percent of individual property tax bills. Fourth, it allowed local governments to provide property tax relief by levying a County Adjusted Gross Income Tax (CAGIT) up to one (1) percent. Fifth, it provided for phasing out the corporate gross income tax over 20 years. Finally, it added a supplemental three (3) percent income tax for corporations. The reforms of 1973 substantially reduced property taxes, substantially increased sales taxes and changed corporate income taxes very little.[2]

The stagnation and inflation of the late 1970s and early 1980s prompted another round of tax reform in 1983. This time the sales tax was increased from four (4) to five (5) percent and individual income taxes were increased from a rate of one and nine-tenths (1.9) to three (3) percent, and the phaseout of the corporate gross income tax was delayed for two years.[3] These efforts, taken as a whole, represented a major increase in tax revenue and an equalization of revenue share provided by the "big three" Indiana taxes: property, income and sales. In 1987, the phaseout of the Corporate Gross Income tax was permanently halted.[4]

## II. Evaluating the Indiana tax system

Five factors are pertinent to the thorough evaluation of a tax system, according to Larry DeBoer, policy advisor to the Citizens Commission on Taxes. They are equity or fairness, adequacy of revenue yield, stability or predictability of revenue, economic competitiveness, and administrative efficiency.[5]

### Equity

The equity or fairness of a tax system determines who pays the taxes-- the rich or poor, businesses or individuals or homeowners or renters. Measuring tax equity is not easy. While it is simple to determine the *impact* of taxes-- i.e., who pays the tax when it is levied-- it is much more difficult to determine tax *incidence*. The incidence describes who actually bears the burden of the tax. Taxes on business illustrate the difference between impact and incidence because businesses have no capacity to bear the burden of taxes separate from their owners, employees and customers. A particular business may pay $20,000 to the Indiana Department of Revenue on a given year, but this $20,000 must come, in some proportion, from profits, shareholder value, wages or salaries, or from customers in the form of higher prices. Determining tax incidence is challenging because these proportions vary from business to business. Also, since state economies are not closed systems, the tax burden can be shifted to individuals from out of state.

Despite arguments about incidence, it is well understood that Indiana's tax system is distinctly regressive. Those with lower income pay a higher share of their incomes in taxes than those with high incomes. In 1985 Indiana had the dubious honor of being placed on Citizens for Tax Justice "Filthy Fifteen" and "Terrible Ten" lists. The Filthy Fifteen are the fifteen states which tax their richest families at less than one-half the rate of their poorest. The Terrible Ten are those states which tax their richest families at less than one-half the rate of their middle income families.[6] A 1987 study of tax incidence by James Papke indicated that households with incomes less than $3,000 paid approximately 15.4 percent of their incomes in taxes in 1985. Households with $30,000 in income paid nine and four-tenths (9.4) percent, and households earning in excess of $100,000 in income payed a mere six (6) percent. [7] This inequity has not diminished in the decade since Papke's study. The 20 percent of Indiana households earning less than $29,000 per year, pay 12.6 percent of their incomes in state and local taxes. The one (1) percent of households earning an average of $622,000 pay six and one half (6.5) percent.[8]

**Adequacy**

A tax system must yield adequate revenue to support state expenditures. That is, it must not decrease or increase tax revenue. This is especially relevant to the current efforts to reform the tax code because the State of Indiana currently has a budget surplus in excess of $1.5 billion, and there is substantial disagreement as to how much revenue is indeed adequate to support state expenditures.

A heated and partisan debate surrounds the issue of the surplus. Democrats tend to favor maintaining total taxation at or very near the current rate. This policy is based on an interpretation of the surplus as a fortunate product of an economic expansion.

Democrats are hesitant to reduce taxes now for fear that a tax increase would be required later in the event of a recession when taxpayers are experiencing other financial hardships. In his 1998 State of the State address, Governor O'Bannon said that he wanted to maintain a reserve of at least $1 billion so the state could weather potential "rainy days" in the future. O'Bannon said that state leaders had learned their lessons from the 1980s when a major tax increase and expenditure reduction were necessary during a recession to offset previous tax cuts made during good economic times. Governor O'Bannon has informed the Citizens Commission on Taxes that any proposal to reform the tax system must be revenue neutral.

Republicans in both chambers disagree that tax reform should be revenue neutral on two grounds. First, Republicans maintain that Indiana has a systemic budget surplus. In other words, the tax system would generate more revenue than is needed to maintain expenditures even during a recession. Republican fiscal analysts estimate that the systemic surplus is as little as $200 million and possibly as much as $500 million. The second disagreement with Democratic insistence on revenue neutrality is that maintaining a large surplus is not a wise use of wealth. Taxes transfer wealth from more productive uses to less productive ones. By sitting in reserve, the hundreds of millions of dollars that the state maintains in surplus is not being used as efficiently to create wealth as it would be if it were in the private sector. Republicans would like to reduce taxes and eliminate some of the surplus. In their caluculus, tax decreases would initiate a virtuous cycle of economic expansion, wealth creation and a corresponding increase in tax revenue.

**Stability**

The third criteria for a good tax system is stability and predictability of revenue yield. Different kinds of taxes provide a more or less stable and predictable revenue stream from year to year than do others. Among the major taxes, property taxes provide the most predictable revenue because most property value in Indiana lies in real property and real property quantities fluctuate only marginally. Also, the inflationary effects are limited by the assessment practices, and adjustments in tax rates offset some variation in assessed values. Corporate income taxes are least predictable because corporate profits fluctuate with the business cycle even when the economy is prosperous and stable. Individual income taxes are generally more stable than corporate income taxes but less stable than property taxes. Individual income tax predictability correlates positively to economic stability. When the economy is stable, individual income tax revenue is highly predictable, and during times of economic instability, individual income tax revenue is unpredictable.

Since 1985, Indiana individual income tax revenue has been nearly as stable as the property tax levy due to economic stability during this period. On the other hand, economic instability from 1970-84 made the individual income tax nearly as unstable as the corporate income tax.[9] The sales tax is less stable than the property tax but more stable than either the corporate or individual income tax. Sales tax stability is due to the greater constancy of consumption compared to income. People tend to save more in times of prosperity and use that savings for consumption during an economic downturn.

This lends to consumption rates more consistent than incomes and a related predictability of sales tax revenues.[10]

The stability of the tax system is bolstered by a nearly perfect balance among the major tax revenue sources.[11] Balance lends to overall stability by limiting reliance on any one tax. It also contributes to the equity of the tax system by taxing many different activities and thus sharing the burden among different taxpayers.

**Economic Competitiveness**

State and local taxes are incentives and disincentives to the creation of new businesses and the expansion of existing businesses. The significance of state and local taxes, and the competitive advantage which can be gained from manipulating them, is hotly debated. "All else remaining the same, tax increases stunt economic growth and tax reductions stimulate economic growth," conclude Bohanon and McClure in a study sponsored by the Indiana Association of Realtors. The study focuses on the marginal impact of taxes and uses the decision of the Saturn company to locate their automotive manufacturing in Tennessee rather than Kentucky to illustrate their hypothesis. Saturn would have payed less taxes if it would have located in Kentucky, but location in Tennessee, because of other factors, enabled the company to produce cars at a slightly lower cost. It was thus the marginal effect of state and local taxes which deterred Saturn's location in Kentucky. If, Bohannon and McClure argue, Kentucky would have assessed Saturn with only marginally lower taxes then the company "would have" located in Kentucky. Bohannon and McClure also state that not only does the total level of taxation affect economic competitiveness, but so does the tax mix. Those taxes which discourage entrepreneurship are the most deleterious to the interest of economic competitiveness. Property taxes are "a direct tax on entrepreneurial activity", according to Bohanon and McClure because starting, maintaining and expanding a business depends upon risk-taking and property taxes are usually assessed indepently of profits.[12]

Bruce Nissen, a professor in the Division for Labor Studies at Indiana University, for one, disagrees with the notion that low taxation is the key to economic competitiveness. State and local taxes are minor factors compared to non tax-related considerations such as proximity to market, type of workforce, access to resources and infrastructure needs. Low taxes can be disadvantageous to economic competitiveness and overall quality of life if there is insufficient revenue to support necessities like education, public services and infrastructure. Nissen decries the aspiration by some to establish Indiana as a "low tax" state as being the "low road" to economic development. He refers to such an approach as "the Third World model," and concludes, "Such a model will not work for Indiana and is harmful to its residents."[13]

**Administrative Efficiency and Neutrality**

A tax system should not necessitate extraordinary, costly means of collection. Thus, taxpayers should be able to understand it and generally regard it as fair or else enforcing compliance could be difficult and costly. Governments should attempt to make taxes as behaviorally neutral as possible: That is, they should be levied and collected in a way that interferes least with economic behavior. The state's property tax on inventories draws vehement criticism in this regard because it encourages businesses to make decisions it would not make otherwise in order to reduce inventories prior to assessment March 1.

## III. The Citizens Commission on Taxes

The Citizens Commission on taxes was established by Governor O'Bannon on March 27, 1994, and it is to make a final recommendation to the Governor by December 1, 1998.

The purpose of the Commission is "to undertake a comprehensive analysis of Indiana's state and local tax system." Particularly, the Commission is to study ways to make the Indiana tax system fairer, simpler for the taxpayer, simpler to administer and more conducive to economic development.[14]

The bi-partisan Commission is comprised of Indiana residents of diverse occupations from throughout the state and meets the second Tuesday of every month. C. Kurt Zorn, Professor at the School of Public and Environmental Affairs at Indiana University at Bloomington, chairs the Commission. (Appendix 2 contains a full list of Commission members).

The Governor has asked that the Commission make a final proposal which takes into account four additional factors. First, the change in the tax system should be revenue neutral. That is, it should neither increase or decrease the overall level of taxation. Second, it should allow for minimal shifts in state and local tax burdens borne by individuals and business unless they are reached by consensus and necessary to achieve Governor's goals for the Commission. In other words, the Commission should not significantly increase tax impact on individuals while lessening that of business or vice versa. Of course, the "minimal... unless... necessary" construction of this provision signals that avoidance of burden shifting is not the highest priority for the Commission. Third, the Governor states that the final proposal of the Commission " should be consistent with criteria for a good tax system."[15] The criteria for a good tax system are the five factors enumerated by DeBoer: Equity, adequacy of revenue yield, stability, economic competitiveness, and administrative efficiency. Finally, Governor O'Bannon asks that the Commission apply particular scrutiny to the property tax.

The Commission is currently studying the following tax reduction initiatives.

- Elimination or reduction of school general fund property tax levies
- Removal of some or all elements of the welfare property tax levies: the likeliest candidates for removal are those that involve state control of spending
- Reduction or elimination of inventory taxes and business equipment taxes
- Restructuring corporate income taxes
- Enacting a "circuit breaker" to provide property tax relief to low income and fixedincome individuals
- Making improvements to the real estate tax assessment system
- Increasing the personal income tax exemption

The Commission is currently studying the following tax increase initiatives to maintain revenue neutrality.

- Increase sales tax rate
- Increase personal income tax rate
- Expand sales tax base to some services.
- Increase business income taxes (possibly with the implementation of a "single business" or "franchise" tax as a replacement of the current business tax structure)
- Control on spending and budgetary increases at the state and local level
- Local enactment of option taxes
- Revising the Indiana constitution

From April to December 1997, the Commission members focused on building a common base of knowledge about the Indiana state and local tax system and receiving public input about problems with the current system. To receive public input from throughout the state the commision held public hearings from mid-June through early August 1997 in Indianapolis, Richmond, Merrillville, Mishawaka, Fort Wayne, Terre Haute, Evansville, New Albany, West Lafayette and Brown County. Property tax was the issue of greatest concern at these public hearings.

**IV. The intractability of the property tax**

Of all the factors to be considered by the Commission, the issue of property tax reform is sure to be among the most important. It is not only extremely important with many property owners decrying the property tax, but in recent years there has been much legal wrangling within the state judiciary to determine if the the property tax is levied in a constitutional way.

Much of the current uproar against the property tax is due to the efforts of the Commission to Restore Indiana Property Tax Controls (CRIPTC) in the early 1990's. CRIPTC is comprised of members of the Indiana Manufacturers' Association, the Indiana Chamber of Commerce, farmers, realtors and other primarily business-oriented organizations. CRIPTC members were unhappy with the growth of property tax rates in the mid-1980s and coallesced in the hopes of reducing, or at least limiting, the growth of the property tax. CRIPTC attempted to confront the property tax issue by researching the level of property tax increases, increasing public awareness and promoting legislation to control property taxes, according to Mark Cahoon, CRIPTC Secretary.[16] In 1993, the Senate passed a bill which would have required local property taxing units to determine the amount of revenue available prior to setting their budgets. Previously, budgets were set and then levies were determined in order to meet those budgets. Few expected the legislation to go as far as it did in the first year it was introduced to the General Assembly, according to Cahoon. In 1994 that legislation became law.

Fiscal analysts for both Senate Republicans and House Democrats agree that CRIPTC was instrumental in putting property taxes on the 1990s political agenda.[17]

**Public sentiment**

Everyone consulted in the preparation of this report knowledgeable of the efforts to reform the Indiana tax system said that reducing the property tax burden is imperative to any proposal to alter the current tax system.

Among those who spoke at the Citizens Commision on Taxes public hearings and wrote letters, reducing the property tax was the issue of greatest concern though not all agreed on how to rectify the associated problems.

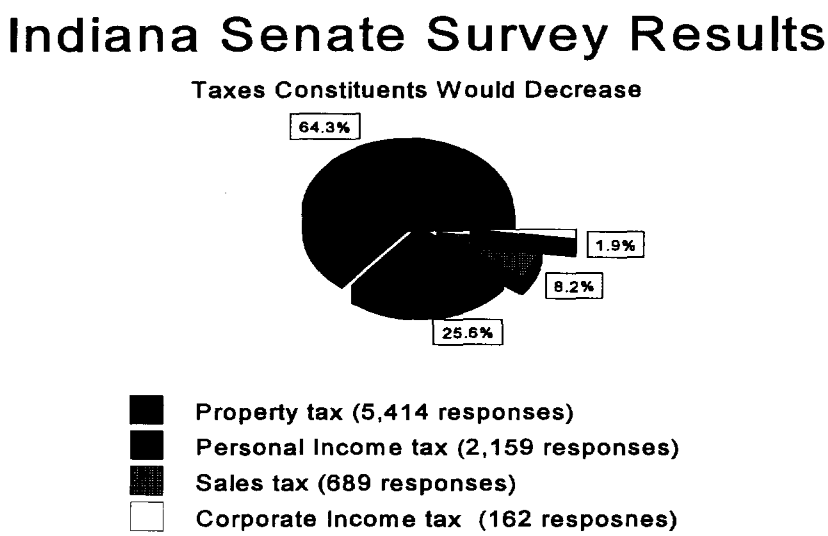
Many supported eliminating the property tax altogether. If there is to be a property tax, there is disagreement as to how it should be assessed. Businesspersons and realtors tended to support a move to a "fair market value" system of assessment as do some residents while farmers tend to support the existing "true tax value" system as the lesser of two evils.

Survey results from 11 Senate districts provided by the Senate Democrat Caucus show that of all state and local taxes, property taxes are those which most constituents would like to see decreased. Responses are depicted in Figure 1. This data is valuable for three reasons. First, answering the questionairre and mailing it back to the senators requires significant effort. It is likely, then that those people who used time and energy to do this are concerned about the issues on the questionairre. In mailing the questionnaire back, the respondants also evince a sense of political efficacy which indicates that they are likely to vote. In short, the opinions expressed in this survey should matter at the polls. Second, the responses indicate that the property tax is more unpopular than all other state taxes combined with 64.3 percent indicating that they would like it to be decreased. Third, though the data is compiled from the responses of constituents in Senate districts represented only by Democrats, the districts are sufficiently geographically and demographically disparate that the data from these districts should approximate the data from a survey of constituents in every Senate district. The total number of responses from each Senate district and the methodology are described in Appendix 1.

**Fair Market Value v. True Tax Value**

The essential difference between the fair market value and true tax value methods of property assessment is that the market value system measures the value of property in exchange while the current tax value system measures the value of property in use. True tax value is determined by deducting depreciation from replacement cost. Essentially this means valuing land and then establishing how much it would cost to build the structures on that land today (a factor related to square-feet of space), then subtracting depreciation based upon how old that structure is. Additional value is assesed for other factors like extra living units, recreation rooms, fireplaces and plumbing fixtures. External structures like garages, decks and swimming pools also add to the assessment.

Figure 1:




Data from results of surveys mailed to constituents in 10 Indiana State Senate Districts represented by Democrat Senators. Respondents were asked, "If the state decreases taxes, which tax would you like to see decreased. The methodology is described in Appendix 1."

But this is not all. Subjective factors like the condition of the house and neighborhood desirability must be assessed. Assessors must also establish a grade for a house ranging from A to D-, which rate amenities and design factors of the house. Elaborate roof trims, custom built cabinets and ceramic tiling will increase the grade of the house. A neighborhood can be ranked in one of seven categories: Excellent, very good, good, average, fair, poor or very poor.

The sum of these factors is the "true tax value". The "true tax value" is then divided by three. This provides the "assessed value". The assessed value is then multiplied by the tax rate for the township-- a factor which is partially dictated by the state but mostly by local levies for schools, fire and police protection, welfare and other services. This figure is what the individual owes prior to deductions. Table 1 presents the basic formula for property assessment of a residence based on true tax value.

**Table 1:**

***Basic Formula for Assessing a Residence using True Tax Value***

$$\frac{(L + S + G + N)}{3} \times R - D = \text{total assessed value}$$

**L= value of *land***
**S= value of *structures* based on area in square feet, with allowances made for crawl space and basements**
**G= additional value for the *grade* of the house**
**N= additional value for *neighborhood* desirability**
**R= *tax rate***
**D= *deductions,* if any**

Property condition and neighborhood desirability judgments are made with the guidance of models provided by the state, but they remain subjective. A taxpayer may contest these "judgment calls" by appealing to a seven-member board of review. If the board of review agrees with the judgment of the Assessor, the complainant has 30 days to file a complaint with the State Tax Board.

Assessments are conducted once every four years. Property was last assessed in 1995. The next assessment will begin in 1999 and will provide the basis for 2001 tax bills, assuming that property tax is not eliminated first.

A fair market value system essentially would assess property the same way that banks appraise property value for a mortgage or a loan. Such a system would assess the exchange value of property at a particular time rather than the value of property in use as the true tax value System purports to do.

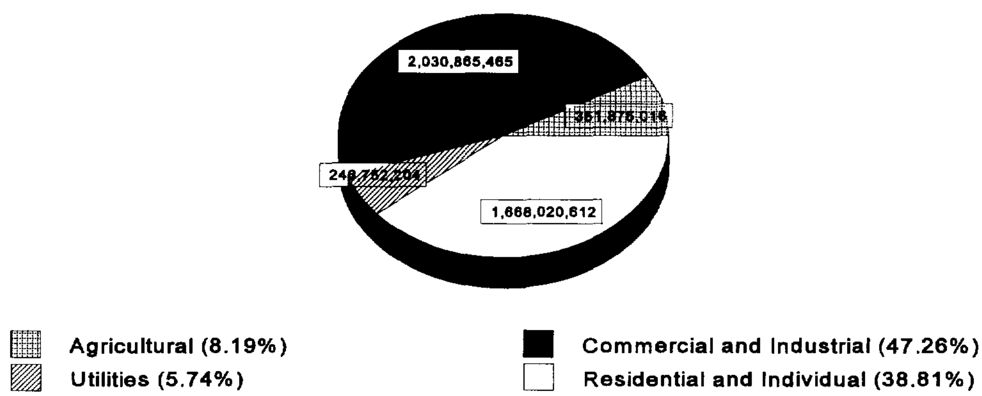
One of the problems with the true tax value system, according to Troy Liggett, Fiscal Analyst for the House Democrats, is that over time, " politicians have played with the numbers and schedules used to assess property, and the system has lost a lot of its real world basis." Liggett said that an example of such "playing" was the suggestion by a 1995 committee studying agricultural land assessment values that agricultural land should be assessed at a higher value than the current rate of $495 per acre. The suggestion was made, but there was not sufficient political will to risk irritating farmers by increasing the assessment value.

In Clinton County, Frankfort Center Township Assessor, Jan Conner, said that the property tax system is the product of an agricultural past. Property was taxed, she explained, because it was the easiest to tax. It was highly visible and immobile and thus, easier to measure than other forms of wealth. With advanced technology, it is now possible to move away from this sort of taxation, according to Conner.

**Who pays the property tax?**

The property tax is widely unpopular among residential property owners and farmers who, in aggregate, bear less than half of the property tax burden. Most property tax is in fact payed by commercial and industrial interests and utilities as depicted in Figure 2.[18]

**Figure 2:** **Estimated Net Tax Levy by Property Class 1996 (payable 1997)**




Even with the homestead credits and other exemptions for residential homeowners the property tax is widely despised by homeowners.

Indiana taxpayers have objected to the property tax for seven reasons. The first objection is that the property tax is a *de facto* rent payment for property which individuals already own. Second, the property tax is not directly related to individual consumption or ability to pay. Retirees with fixed incomes, for instance, may have substantial property wealth but little money, and while there are some exemptions available for such individuals, property taxes may be a heavy burden. The third issue lending to the unpopularity of the property tax is that property owners feel they are being discriminated against because renters do not pay property tax. Most studies, however, show this to be erroneous[19] because renters pay the property taxes indirectly through rent. Also, homeowners are allowed to deduct mortgage interest from their federal tax liability, a privilege obviously not available to renters.

Fourth, the true tax value assessment method can seem arbitrary and difficult to understand. Max and Shirley Thomas, residents of Frankfort, for example discovered in March 1998 that they had been over-paying property taxes for at least a decade because their dwelling had been assessed as having a full rather than a partial basement. In addition, they had never received a homestead credit because they were unaware that they needed to apply for it. They will receive a refund for overpayment but only for the last three years of overpayment, as the law requires. The true tax value method is complex and difficult to communicate, and this can make it difficult for taxpayers to know how their property is being assessed.

The fifth factor is that, unlike sales and income taxes which are paid incrementally, property taxes are highly visible because they must be paid in comparatively large amounts at one time. High visibility and impact on the finances of individual taxpayers contribute to disaffection.

Sixth, while the property tax is a stable source of income for state and local government, it can be unpredictable for the individual taxpayer. With so many levies incorporated into the property tax, including schools, fire protection, police and fire pensions, and welfare funding, an individual may not know from one year to the next how much property tax he or she will pay.

Finally, property owners may not feel that they receive benefits commensurate to the taxes they pay. Most property taxes go to schools, and while every citizen is entitled to the benefit of public education at some time in his or her life, not everyone is currently enjoying that benefit. Childless adults or adults whose children are no longer attending school may feel that they are not receiving a benefit from the taxes they pay. Also, parents whose children attend private schools may feel that they are being charged twice for the education of their children.

**The legal environment of the property tax**

The true tax value assessment system is under assault by the state tax court. On May 31, 1996 in *Town of St. John v. State Board of Tax Commissioners,* Judge Fisher ruled that the true tax value system violated Article 10, Section 1, subsection "a" of the Indiana Constitution which states:

> The General Assembly shall provide, by law, for a uniform and equal rate of property assessment and taxation and shall prescribe regulations to secure a just valuation for taxation of all property, both real and personal...[20]

Judge Fisher also stated that the "just value" of real property is its market value.[21] The State Board of Tax Commissioners appealed the Fisher decision to the Indiana Supreme Court. The Supreme Court essentially stated that market value is not the sole measure of "just value" but that the true tax value system may be unconstitutional and remanded the case to the tax court. The Tax Court published a decision on December 22, 1997 which was essentially a reiteration of its earlier decision. The State Board of Tax Commissioners is currently appealing the decision to the Indiana Supreme Court.

**Setting the stage for 1999**

If 1999 is to be the big-game year for tax reform for the General Assembly, 1998 was the scrimmage. Both House Democrats and Senate Republicans presented and were able to pass tax relief legislation through their respective chambers. Upon arrival in the second chamber, however, the controlling caucuses strippped House Bill 1001 and Senate Bill 352 of their original language, and replaced them, respectively, with their own plans. "There was never any legitimate conversation about moving toward some sort of compromise on tax reform," Kevin Carey, Fiscal Analyst for the Senate Democrat Caucus said of the 1999 legislative session.[22]

SB 352 was an attempt to reduce property taxes by eliminating one of the most expensive components of the property tax mix, according to Gretchen Gutman, Fiscal Analyst for the Senate Republican Caucus. Currently, 28 percent of school general fund revenues are collected through local property taxes.[23] The remainder is provided by the state through the school funding formula. Senator Luke Kenley (R-Noblesville) proposed to eliminate the school general fund property taxes from the property tax levy with Senate Bill 352. Many Democrat senators objected that SB352 was irresponsible because it did not provide a mechanism to replace the revenue lost by the tax cut.

SB352 was responsible legislation, according to Gutman, and would not have crippled public schools as many Senate Democrats claimed. The approximate $1.2 million of funding for schools could be replaced by using revenue from three sources. The first source would be the savings from the elimination of the school property tax replacement credit. The state now pays 20 percent of school general fund property tax levies with this credit. Elimination of the local levy of school general fund property taxes would also eliminate the replacement credit, saving the state $240 million per year. Second, Gutman estimates that the state has a structural surplus of $300- $350 million which could be used without replacement. Third, additional revenue could be found to replace the approximately $600 million by expanding the sales tax to some services and increasing income taxes.

In the House of Representatives, Representative Jerry Bales (R-Bloomington) offered an amendment to SB 352 to replace all revenue lost by elimination of the school general fund property tax levy. The amendment "called the bluff" of Republicans, according to Troy Liggett, Fiscal Analyst for the House Democrat Caucus, because it proposed to match the individual versus business tax mix of the current system and showed how much of the property tax is actually borne by business. The amendment provided for four major changes in the tax system including raising the state individual income tax rate from 3.4 percent to 3.6 percent, raising the state sales tax rate from five (5) percent to five and one half (5.5) percent, raising the financial institutions tax rate from eight and one half (8.5) percent to 15 percent, and replacing the Corporate Income Tax which is effectively seven and seven-tenths(7.7) percent[a] with a Single Corporate Income Tax with

[a] By way of comparison, Michigan has a Single Corporate Income Tax with a rate of two and three-tenths (2.3) percent.

a 14 percent rate.[24] The amendment failed 67-30. Senate Bill 352 was approved 56-43 by the House after it had been amended to remove language approved by the Senate. It replaced Senate Republican language with the preferences of House Democrats. The Senate dissented from the House amendments, and a conference committee was established but the conferees could not agree and SB 352 died.

The tax relief plan of the House Democrats would have provided an additional $2,000 tax deduction for homeowners for tax years 1998 and 1999, increased the deduction for renters from $1,500 to $2,000 for 1998 and 1999 and would have established a maximum $100 credit per eligible dependent for educational expenses.

**Four caucuses and a governor**

Tax reform depends upon the philosophies, priorities and political needs of the four caucuses of the General Assembly and Governor Frank O'Bannon. All four caucuses-- the Democrats and Republicans of the Senate and House of Representatives-- agree that property tax relief will be the key issue-- beside the bi-annual state budget-- of the 1999 session. They do not, however, agree as to what form such relief should take.

The major points of contention include the constitutionality of the current assessment system, "Everyone agrees that the property tax is not assessed fairly," said Jeff Spalding, Fiscal Analyst for the House Republicans. The House Republicans would replace the current true tax value method of assessment with a market value system. The current system is clearly unconstitutional, Spalding said, citing the decision by the tax court in *Town of St. John v. State Board of Tax Commissioners*. Spalding said that the state is aware of its vulnerability on the assessment issue as reflected by its decision to settle a lawsuit out of court with a utility company in the northern part of the state.[25] The utility had claimed that state credit and deduction allowances for homeowners violated the "uniform and equal" assessment clause in the Indiana Constitution.

The House Democratic Caucus disagrees. If the state has a legitimate policy interest in treating groups of taxpayers differently, Liggett doubts the courts will interfere. The courts have not revoked the homestead credit which has provided some property tax relief exclusively for homeowners since the early 1980s. The courts would be unlikely to interfere with a new tax policy if it attempts to preserve the current burden of taxes borne by businesses and individuals respectively, Liggett said.

The "burden shifting" question is contentious indeed. Both House and Senate Democrats have indicated that they do not want an across-the-board property tax reduction-- the benefits of which would accrue primarily to business-- to mean an increase in the overall tax burden borne by individuals. "House Democrats have become protector of the individual taxpayer over the corporate taxpayer," according to Liggett who said that reducing property taxes and replacing lost revenue with sales and individual income tax would be "corporate welfare."

Senate Democrats will be watching the issue of burden shifting very closely to see that individuals do not suffer from a property tax reduction, Carey said.

The Governor is likewise concerned that individuals are the beneficiaries of tax reform, said Ryan Soultz, Governor's Fellow.[26] Soultz assisted the Governor with strategic planning regarding tax reform and assisted Chairman Zorn with agenda setting for the Citizens Commission on Taxes. Businesses do not particularly need tax relief because they currently can receive relief through abatements, and their tax burdens are comparable to that borne by similar operations in neighboring states. "The Governor wants to make (the tax system) work to the advantage of poor, working class folks," Soultz said.

House Republicans are not particularly concerned about burden-shifting. Throughout the country, states are increasingly shifting the burden from business to individuals to create a better environment for business, Spalding said. Whether individuals or businesses write the tax checks is unimportant because individuals ultimately pay all taxes. Reducing taxes on business should have a favorable impact on economic activity--both in attracting new business and helping existing Indiana businesses to perform better-- which benefits everyone, Spalding said. Similarly, Gutman indicated that Senate Republicans support tax reform that would give the state a competitive climate to attract business.

The Indiana tax system has long been accused of being extremely regressive by scholars and citizen watchdog groups alike[27], but Democrats and Republicans disagree as to the importance of making the tax system more progressive. Democrats in both the House and Senate support making the tax system more progressive. Senator Michael E. Gery (D-Lafayette), ranking minority member of the Senate Finance committee wrote in an August 5, 1997 memo to the Citizens Commission on Taxes that any tax reform package should reduce the burden on the "working poor" by increasing the standard deduction for adult taxpayers from $1,000 to $4,000 and increasing the deduction for dependent children from $1,500 to $4,000. An increase in the income tax rate from three and four-tenths (3.4) percent to four (4) percent would offset most of the cost, according to Gery.

The Senate Democratic Caucus supports a graduated individual income tax. Of the 42 states which have an individual income tax, 35 have a graduated system in which higher income earners pay more than those with less income.[28] House Democrats agree with sentiment of Senate Democrats that a graduated individual income tax is desirable, according to Liggett, but they do not believe that the establishment of such a system is politically feasible.

Republicans deem a graduated individual income tax undesirable. "The majority of people hate the federal income tax system so I don't see why they would want the state to go the same way," Spalding said. "Most (members of the House Republican Caucus) don't like the rhetoric surrounding a graduated income tax and its equivalency with fairness," Spalding said, " I think it's class envy."

While there is virtually no interest in making the income tax system more progressive, according to Spalding, there is an interest in reducing the tax burden on those with very low incomes. "There is growing appreciation among (House Republican Caucus) members that as people come from welfare and into work they must be allowed to come off of government dependence," Spalding said, explaining why House Republicans support increasing the standard deduction for individual income tax.

Senate Republicans are concerned with regressivity, but not as much as Senate Democrats, Gutman said. Maintaining a balance of revenue sources and ensuring that the tax system promotes a diverse economy are the primary concerns of the Senate Republicans, Gutman said. "We've attempted to diversify but our economy is still largely manufacturing and agriculture," Gutman said, "When they go in the tank, we all go in the tank."

While the four caucuses and the governor are at odds on many aspects of tax reform, there are three points on which they all agree. First, the sales tax should be raised from the current rate of 5 percent to 6 percent or above. Second, the sales tax levy should be extended to some services. Third, the individual income tax standard deduction should be increased from the current rate of $1,000.

The fiscal analysts of the four caucuses agree that tax reform is highly likely during the 1999 legislative session. Tax reform is crucial for Governor O'Bannon, according to Soultz. "The outcome of the tax reform issue will be important in deciding whether Frank O'Bannon is a successful Governor," Soultz said, "The 1999 session is the most important of his life."

**Darned politics!**

The nature of tax reform will depend heavily on the outcome of the November 1998 election. Both parties concede that barring wildly unforseen circumstances, the Senate will remain under Republican control following the election. Meanwhile, the House of Representatives is "in play" as neither side can be confident of winning control. The 1997-98 House was comprised of 50 Republicans and 50 Democrats. The law provided that the party of the Governor would choose the speaker and control committee assignments in the event of an even split in partisan representation. This provision changes with the 1999 General Assembly when the party of the Secretary of State will control the House in the event of a tie. Neither party foresees Republican Sue Anne Gilroy losing her re-election bid. The challenge for the Democrats therefore should be marginally greater because maintaining the *status quo* is not sufficient to maintain control of the chamber. If Democrats control the House, tax reform will most likely be an embodiment of Democrat priorities including reducing the burden on low income taxpayers and maintaining the balance between the individual and business tax burden. If Republicans control the House, the outcome of tax reform would most likely be representative of Republican priorities to reduce the tax burden on businesses.

**The shape of things to come**

The Citizens Commission on Taxes has recently been presented with two proposals which show how priorities differ between parties and caucuses. A proposal drafted by Senator Lawrence Borst (R-Indianapolis), chairman of the Senate Finance Committee, and presented March 10, 1998 embodies Republican priorities. The Borst proposal removes the school general fund, school transportation fund, county welfare funds and township poor relief fund from the property tax levy. Property taxes would decline by 39 percent-- a $1,802 million deduction in fiscal year 2000. To compensate for this reduction, sales, individual income, corporate income and cigarette taxes would be increased to generate $1,841 million. Sales taxes would be increased from five (5) percent to six and one quarter (6.25) percent and some services would be included in the base. The total sales tax increase would generate an additional $1,160 million in revenue. The individual income tax rate would be increased from three and four-tenths (3.4) percent to four and two-tenths (4.2) percent while the standard deduction for adults would be raised to $3,000. The total individual income tax increase would be $516 million. Corporate income taxes would be increased by $106 million by raising the Adjust Gross Income (AGI) tax rate from three and three and four-tenths (3.4) percent to four and two-tenths (4.2) percent and the Supplemental Net Income Tax (SNIT) rate from four and one half (4.5) percent to five and three-tenths (5.3) percent. Cigarette tax rates would be raised from 15.5 cents to 23.25 cents per pack and raise an additional $59 million.[29]

Clearly the Borst proposal would shift the tax burden from business to individuals with individual income tax and cigarette tax increases. Sales tax increases would largely be borne by individuals as well since individuals pay 78 percent of this tax.[30]

An alternative proposal drafted by Pat Bauer (D-South Bend), House Ways and Means Committee chairman, and presented to the Citizens Commission on Taxes at the April 14, 1998 meeting advanced Democratic priorities. The Bauer proposal provided for reductions in the residential property tax and the property tax on inventories, income tax reductions for some taxpayers and elimination of the corporate gross income tax. Property tax relief for homeowners would be afforded by increasing the homestead credit from four (4) to 33 percent. Businesses would benefit from the elimination of the inventory tax, though a constitutional amendment would be required to allow this. Individual income taxes would be reduced by raising the renters deduction from $1,500 to $2,500, raising the standard deduction from $1,000 to $2,500, and raising the earned income deduction to $16,000. The final tax reduction measure would be the elimination of the corporate gross income tax. Tax reductions would total $1,635 million.

The reductions would be offset by tax increases totalling $1,554 million-- not entirely revenue neutral as the Governor requests but the $81 million shortfall is within five (5) percent of neutrality. Sales, cigarette, insurance, financial institutions taxes would be increased and a new corporate franchise tax would be established. The Bauer proposal would raise the sales tax rate from five (5) percent to six (6) percent, one quarter (.25) percent less than the Borst proposal. Cigarette taxes would be increased from 15.5 to 35 cents per pack, an increase nearly three times greater than that proposed March 10. Insurance taxes would be increased from two (2) percent to two and one half (2.5) percent while financial institutions would be charged nine and one half (9.5) percent rather than the current rate of eight and one half (8.5) percent. Finally, a corporate franchise tax would be established to raise $450 million. A franchise tax would be assessed for the right to do business in Indiana, but the specific rate and whether the rate would be indexed to a companies size or other factors is undetermined.

**Evaluation of the Borst and Bauer proposals**

By using the criteria for a "good tax system", Larry DeBoer concluded that the Bauer proposal would make the Indiana tax system more stable and establish greater balance among tax revenue sources than the Borst proposal. Greater stability accrues from the elimination of inventory taxes, which are the least stable of property tax assessments, and the replacement of the corporate gross income tax with a corporate franchise tax. Both the inventory and corporate gross taxes are about as stable as the sales tax which would be used to replace much of the revenue. An assumption is made that a corporate franchise tax would be levied on business regardless of profit. The tax could be assessed according to firm size which would be measured by sales.[31] This would lend to stability since sales fluctuate less than profits over the course of the business cycle.

The Bauer proposal would achieve slightly greater balance than the current system and significantly greater balance than the Borst proposal. The Bauer proposal improves the Indiana balance ranking from tenth among states to sixth.[32] This is due to the increase in sales tax with a decrease in property taxes and individual and corporate income taxes. The Borst proposal contained a larger reduction in property taxes and a commensurate increase in income taxes. This proposal would move Indiana's balance rank to ninetheenth.[33]

Different classes of taxpayers would have different shares of the tax burden under the plans. Among those with low incomes (under $10,000), smokers and renters would probably pay more under the Bauer than the Borst proposal because sales taxes and cigarette taxes would take more of their income. Low income homeowners who did not smoke would pay less with the Bauer proposal because of the greater homestead credit.

Lower-middle income homeowners ($10,000 to $30,000) would receive a tax cut from either proposal with little difference between the two proposals. Upper-middle income homeowners ($30,000 - $70,000) would likely benefit most from the income tax reductions of the Bauer proposal. Upper income homeowners with no business property (over $70,000) receive a greater benefit from the Bauer proposal because their incomes will not be subject to a greater tax rate while those upper income homeowners with business property benefit more from the Borst proposal because of the size of the property tax reduction.[34]

In short, the Borst proposal provides greater to relief to businesses and individuals who own business property. The Bauer proposal tends to favor individuals and homeowners.

**Conclusion**

The nature of tax reform is an important policy issue, but political considerations will determine the composition of any final tax reform package. Though not every Republican and Democrat feels the same way, the Borst and Bauer proposals generally represent the differing perceptions of problems and preferences for solutions between the two parties. Republicans want to decrease the tax burden borne by business in hopes of bolstering economic competitiveness. Democrats want to ensure that business continues to pay its current share of taxes and lessen the tax burden on lower income people in hopes of achieving greater fairness. Both believe that their proposals are the best solution for Indiana taxpayers.

The perception at the statehouse among lawmakers and legislative and gubernatorial staff is that 1999 is the year for tax reform. Both parties want to give taxpayers something before the gubernatorial race in 2000, and both want to take credit for shaping tax reform to their preferences. It will be brutal. With a Democratic

Governor and a Senate almost assuredly controlled by Republicans, tax reform hinges on the composition of the House of Representatives, and that is much too close to call.

The tax reform package to be presented by the Governor should depend at least in part on the recommendations of the Citizens Commission on Taxes. The intentions of Senate Republicans and House Democrats are embodied in the proposals presented to the Commission by Senator Borst and Representative Bauer respectively. It is unclear who will lead the Senate Democratic effort for tax reform since Senator Gery is not seeking re-election. It is rumored, however, that Gery will be hired to help the Governor pass his tax reform legislation.

In conclusion, the efforts of the General Assembly, the Citizens Commission on Taxes and the Governor promise to establish Indiana's tax system for the twenty-first century. Tax reform is more than a consideration of taxes and at what rates they will be set. It is part of a larger consideration of what kind of state Indiana should be. Policymakers must decide what can be accomplished by "remixing" the tax concoction. A reduction in the property tax may benefit capital-intensive commercial enterprises like manufacturing operations more than information-based service enterprises which are becoming an increasingly significant part of the national economy. Policymakers must ask which is more important to the long-term well-being of the economy, and more importantly, the people of Indiana.

# Appendix 1
# Survey Results and Methodology

Results are based on the responses of 7,603 constituents to a mail survey conducted by the Senate Democrat Caucus. Constituents were asked, "If the state chooses to decrease taxes, which tax would you want decreased?" and given four choices: "property tax," "personal income tax," "sales tax," and "corporate income tax." Though not requested, multiple responses were accepted for tabulation. The number of responses from each district are as follows:

| District | Senator | Survey Responses |
|---|---|---|
| 4 | Antich | 559 |
| 8 | Bowser | 882 |
| 26 | Craycraft | 105 |
| 33 | Howard | 383 |
| 48 | Hume | 1496 |
| 25 | Lanane | 355 |
| 45 | Lewis | 631 |
| 3 | Rogers | 490 |
| 46 | Sipes | 831 |
| 10 | Washington | 931 |
| 7 | Wolf | 940 |
| **Total** | | **7603** |

# Appendix 2
# Citizens Commision on Taxes Membership

Allen, Dozier
Calumet Township Trustee
Gary

Bailey, Darren
President
Taxpayers Research Association
Fort Wayne

Bauer, Buzz
President
Bauer Blake Biery Inc., Realtors
New Albany

Bauer, Patrick B.
State Representative
South Bend

Boehm, Peggy
State Budget Director
Indianapolis

Borst, Lawrence
State Senator
Indianapolis

Brinegar, Kevin
Vice President Public Finance
Indiana Chamber of Commerce
Indianapolis

Brinkman, Joyce
Treasurer, State of Indiana
Indianapolis

Brookbank, Jane
First Realtors,
Richmond

Brown, Saundra
Teacher, North Central High School
Indianapolis

Browning, Michael
President
Browning Investments
Indianapolis

Butterfield, David
Mayor, City of Valparaiso
Valparaiso

Cardwell, John
Program Director
Citizens' Action Coalition
Indianapolis

Costerison, Dennis
Assistant Executive Director
Indiana School Boards Association
Indianapolis

Deppert, Chuck
President
Indiana State AFL-CIO
Indianapolis

Dillman Wayne
Legislative Director and Past President
Indiana Farmers Union
Indianapolis

Diehl, James P.
Commissioner, Vigo County
Terre Haute, IN

Espich Jeff
State Representative
Uniondale

Graham, Bill
Mayor, City of Scotsburg
Scotsburg

Hart, John
Former President
and Former State Representative
National Association of Homebuilders
Noblesville

Hiler, John
Vice President
and Former US Congressman
Hiler Industries
LaPorte

Huie, John
Vice-President
Purdue University
West Lafayette

Hume, Lindel
State Senator
Princeton

Kelly, David
Vice President, NIPSCO and
Executive Vice President and CFO
IWC Resources Corporation
Indianapolis

Koob, Glen
Assessor, Perry Township
Evansville

Neu, Elizabeth
Director
Fort Wayne Department of
Economic Development
Fort Wayne

Ogle, John
Auditor, Hamilton County
Noblesville

Pearson, Harry
President, Indiana Farm Bureau
Indianapolis

Sharma, Rita
Farmer
Williamsport

Sheldrake, Bill
President
Indiana Fiscal Policy Institute
Indianapolis

Stolz Ron
Vice-President, Marsh Supermarkets
Indianpolis

Varga, Tom
Partner, Financial Associates
South Bend

Zorn, Kurt
Professor
Indiana University
Bloomington

# <u>Appendix 3</u>
# Proposals for the Citizens Commission on Taxes

**A Draft Proposal**
**Citizens Commission on Taxes**
**March 10, 1998**

**Revenues in Millions of Dollars, Estimated for Fiscal Year 2000**

| | Dollar Change (Millions) |
|---|---|
| **Property Tax Reductions** | **$1,802** |
| School General Fund | 1,234 |
| School Transportation Fund | 258 |
| County Welfare | 269 |
| Township Poor Relief | 41 |
| **Tax Increases** | **$1,841** |
| **Sales Tax Increases** | **1,160** |
| Rate from 5 percent to 6.25 percent | 896 |
| Include some services in tax base | 264 |
| **Individual Income Tax Increases** | **516** |
| Rate from 3.4 percent to 4.2 percent | 867 |
| Raise exemption to $3,000 | -351 |
| **Corporate Income Tax Increases** | **106** |
| AGI rate from 3.4 percent to 4.2 percent | |
| SNIT rate from 4.5 percent to 5.3 percent | |
| **Cigarette Tax Increase** | **59** |
| Rate from 15.5 to 23.25 cents per pack | |
| **Net** | **$39** |

**A Draft Proposal**
**Citizens Commission on Taxes**
**April 14, 1998**

**Revenues in Millions of Dollars, Estimated for Fiscal Year 2000**

| | Dollar Change (Millions) |
|---|---|
| **Tax Reductions** | **$1, 635** |
| **Property Tax Reductions** | **971** |
| Eliminate property tax on inventories | 415 |
| Increase homestead credit from 4 percent to 33 percent | 556 |
| **Individual Income Tax Reductions** | **314** |
| Raise renters deduction from $1,500 to $2,500 | 22 |
| Raise exemption amount from $1,000 to $2,500 | 287 |
| Raise earned income deduction to $16,000 | 5 |
| **Eliminate Corporate Gross Income Tax** | **350** |
| **Tax Increases** | **$1,554** |
| **Sales Tax Increases** | **922** |
| Rate from 5 percent to 6 percent | 722 |
| Include some services in tax base | 200 |
| **Cigarette Tax Increase** | **136** |
| Rate from 15.5 to 35 cents per pack | |
| **Insurance Tax Increase** | **34** |
| Rate from 8.5 percent to 9.5 percent | |
| **Financial Institutions Tax Increase** | **12** |
| Rate from 8.5 percent to 9.5 percent | |
| **Corporate Franchise Tax** | **450** |
| **Net** | **-$81** |

# *Notes*

1. Results of Senate Democrat Survey. See *Appendix 1: Survey Results and Methodology.*

2. Bruce Nissen. *The Indiana Tax System: Who Benefits? A Worker/Citizen Perspective, Working Papers for a Better Indiana (#1).* Institute for The Study of Labor in Society, Division of Labor Studies, Indiana University. September 1988. *Ibid.* p. 3.

3. *Ibid.* p. 3.

4. Indiana Legislative Services Agency Office of Fiscal and Management Analysis. *Indiana Handbook of Taxes, Revenues, and Appropriations: Fiscal Year 1997.* Indianapolis. 1997.

5. Commission on Taxes. *Interim Report.* December 1997.

6. Bruce Nissen. *The Indiana Tax System: Who Benefits? A Worker/Citizen Perspective, Working Papers for a Better Indiana (#1).* Institute for The Study of Labor in Society, Indiana University- Division of Labor Studies. September 1988. *Ibid.* p. 4-5.

7. James A. Papke. *The Composition and Burden of Indiana's Tax System: Interstate Comparisons.* Report Prepared for the Indiana State Teachers Association. January 1987.

8. Citizens for Tax Justice and The Institute on Taxation and Economic Policy. *Who Pays?* 1996.

9. Larry DeBoer. *Report to the Citizens Commission on Taxes: Growth and Stability of Property, Individual Income, Sales and Corporate Income Taxes.* West Lafayette. March 1998.

10. *Ibid.*

11. Larry DeBoer. *Report to the Citizens Commission on Taxes: Balance and the Indiana Tax System.* West Lafayette. March 1998. p. 4.

12. Cecil Bohanon and James McClure. *The Impact of Property Tax Reform on Economic Growth in Indiana.* Department of Economics, Ball State University. Muncie. January 1998. p. 20.

13. Bruce Nissen. *The Indiana Tax System: Who Benefits? A Worker/Citizen Perspective, Working Papers for a Better Indiana (#1).* Institute for The Study of Labor in Society, Indiana University- Division of Labor Studies. September 1988. *Ibid.* p. 3.

14. Citizens Commission on Taxes. *Interim Report.* December 1997. p. 2.

[15] *Ibid.* p. 10.

[16] Indiana Legislative Services Agency Office of Fiscal and Management Analysis. *Indiana Handbook of Taxes, Revenues, and Appropriations: Fiscal Year 1997.* Indianapolis.1997.

[17] Interview April 24, 1998. March Cahoon, CRIPTC Secretary.

[18] Interview April 16, 1998. *Troy Liggett*, Fiscal Analyst for House Democrats, and Interview April 23, 1998. *Gretchen Gutman*, Fiscal Analyst for Senate Republicans. Additional attributions to Troy Liggett and Gretchen Gutman are from these interviews respectively.

[19] Larry DeBoer. *Report to the Citizens Commission on Taxes: Stautory and Economic Incidence Across Income Levels.* West Lafayette. August 1997. and Papke, James A. *The Composition and Burden of Indiana's Tax System: Interstate Comparisons*. Report Prepared for the Indiana State Teachers Association. January 1987.

[20] Constitution of the State of Indiana.

[21] *Town of St. John's v. State Board of Tax Commissioners.* Tax Court of Indiana, 665 N.E. 2d (Ind. Tax 1996).

[22] Indiana Fiscal Policy Institute. *Fiscal Policy Report No. 11: Restructuring Indiana's Tax System*. Indianapolis. May 1996.

[23] Jeff Spalding. *Representative Bales' Replacement Revenue Proposal Summary and Review*. February 1998.

[24] Interview April 1, 1998. *Kevin Carey*, Fiscal Analyst for Senate Democrats. Additional attributions to Kevin Carey are from this interview.

[25] Citizens for Tax Justice and The Institute on Taxation and Economic Policy. *Who Pays?* 1996.

[26] Citizens Commission on Taxes, *A Proposal*. March 10 1998.

[27] Citizens Commision on Taxes, *A Proposal*. April 14, 1998.

[28] Interview April 16, 1998. *Jeff Spalding*, Fiscal Analyst for House Republicans. Additional attributions to Jeff Spaldingare from this interview.

[29] Interview April 1, 1998. *Ryan Soultz* , Governor's Fellow assisting Governor and Citizens Commission on Taxes. Additional attributions to Ryan Soultz are from this interview.

[30] Citizens for Tax Justice and The Institute on Taxation and Economic Policy. *Who Pays?*1996, and BruceNissen. *The Indiana Tax System: Who Benefits? A Worker/Citizen Perspective, Working Papers for a Better Indiana (#1).* Institute for The Study of Labor in Society, Division of Labor Studies, Indiana University. September 1988, and James A. Papke. *The Composition and Burden of Indiana's Tax System: Interstate Comparisons.* Report Prepared for the Indiana State Teachers Association. January 1987.

[31] Larry DeBoer. *Report to the Citizens Commission on Taxes: An Analysis of the April 14 Proposal and Comparison to the March 10 Proposal.* West Lafayette. April 14, 1998.

[32] *Ibid.*

[33] *Ibid.*

[34] *Ibid.*

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